

## Message Text

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PAGE 01 EC BRU 04033 01 OF 02 222041Z  
ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 AID-05 CEA-01 CIAE-00  
COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02 STR-04  
TRSE-00 LAB-04 SIL-01 OMB-01 L-03 ITC-01 SS-15  
NSC-05 FTC-01 AGRE-00 /094 W  
-----222120Z 080610 /73

R 221438Z APR 77  
FM USMISSION EC BRUSSELS  
TO SECSTATE WASHDC 3583  
INFO ALL EC CAPITALS  
USMISSION GENEVA  
USMISSION OECD PARIS  
AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 04033

E.O. 11652: N/A  
TAGS: ETRD, EGEN, EEC  
SUBJECT: US/EC CONSULTATIONS - STEEL

REF: (A) EC BRUSSELS 3513, (B) EC BRUSSELS 2592, (C) EC BRUSSELS 3404

1. SUMMARY: US/EC CONSULTATIONS INCLUDED GENERAL TREATMENT OF STEEL SITUATION IN THE EC, LEAVING MORE DETAILED DISCUSSIONS TO APRIL 21 US-EC STEEL TALKS. EC SIDE STRESSED PRESSURES AND DIFFICULTIES COMMISSION FACED IN MEETING THE CONTINUING CRISIS IN STEEL INDUSTRY AND ADVOCATED BILATERAL AND PLURILATERAL CONTACTS TO OBTAIN MUTUAL UNDERSTANDING AND COOPERATION FROM TRADING PARTNERS WHILE MAKING ADJUSTMENTS. US SIDE (COOPER) EXPRESSED PREFERENCE FOR BEGINNING SERIOUS TALKS IN OECD AND NECESSITY OF CONSULTATION WITH TRADING PARTNERS ON EC PROGRAMS WHICH COULD PRODUCE PROTECTIONIST REACTION FROM US INDUSTRY.  
END SUMMARY

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PAGE 02 EC BRU 04033 01 OF 02 222041Z

2. EC SIDE (DAVIGNON) STRESSED NEED FOR PROMPT ACTION BY THE EC COMMISSION BEFORE MEMBER STATES DESPAIR OF COMMISSION EFFORTS AND TAKE THEIR OWN MEASURES. DAVIGNON SAID HE BELIEVED THE CRISIS WAS STRUCTURAL RATHER THAN CYCLICAL AND THAT THE WORST DANGER LIES IN THE TEMPTATION OF QUICK SOLUTIONS WHICH WOULD BE ENORMOUSLY EXPENSIVE BUT WITHOUT RESULTS. THIS, HE SAID, WOULD LEAD TO A BREAKDOWN OF THE COMMON MARKET FOR

STEEL WITH NATIONAL MEASURES AND QUOTAS COMING INTO EFFECT.

3. THE COMMISSION IS CONVINCED THAT IT CAN MAINTAIN A VIABLE, COMPETITIVE STEEL INDUSTRY WITHIN THE EC, BUT NECESSARY RESTRUCTURING WILL TAKE TIME. A MINIMUM BREATHING SPELL IS NECESSARY SO THAT IT WILL NOT ALL NEED TO BE DONE AT ONCE.

4. DAVIGNON SAID HE THINKS THE COMMISSION CAN AVOID A COLLAPSE OF THE COMMON STEEL MARKET BY A PROGRAM WHICH WOULD LEAD TO REINVESTMENT IN THE INDUSTRY WITHOUT INVOLVING IMPORT QUOTAS OR RESTRICTIONS; BUT THE COMMISSION IS UNDER HEAVY CRITICISM FROM TRADE UNIONS AND SOME MEMBER STATES WHILE THE INDUSTRY REMAINS SKEPTICAL ABOUT COMMISSION INITIATIVES SINCE THEY DO NOT INVOLVE STRONG IMPORT ACTION.

5. DAVIGNON RESPONDED TO US CONCERNS THAT MINIMUM PRICES MIGHT LEAD TO DUMPING BY CLAIMING THAT REFERENCE PRICES WERE THE ONLY MEANS OF AVOIDING BANKRUPTCY FOR MANY FIRMS, EXCESSIVE DRAINS ON COMMUNITY RESOURCES AND NATIONALIZATION. MUCH OF THE FALL IN EC EXPORTS HAS BEEN IN MARKETS FOR UNSOPHISTICATED PRODUCTS AND THE COMMISSION BELIEVES THAT WHILE EC INDUSTRY CAN BE A STRONG COMPETITOR ON SPECIALY STEELS, IT SHOULD DISCOURAGE ANY ATTEMPT TO REGAIN EXPORT MARKETS FOR UNFINISHED PRODUCTS THROUGH DUMPING BY WITHHOLDING INVESTMENT ASSISTANCE FOR FIRMS THAT DUMP. THERE WILL BE NO EXPORT SUBSIDIES IN THE COMMISSION PROGRAM. PRICE LEVELS WOULD BE SET BELOW COST OF PRODUCTION OF 30-40 PERCENT OF EC INDUSTRY. PRICE LEVELS WOULD BE ADJUSTABLE BUT HE EXPECTED, NEVERTHELESS, THAT THE POLICY WOULD BE A MAJOR TEST OF THE LIMITED OFFICIAL USE

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PAGE 03 EC BRU 04033 01 OF 02 222041Z

UNITY OF THE INDUSTRY ITSELF.

6. ON SPECIALTY STEEL HE SAID, IT IS IMPORTANT THAT COMMISSION NOT BE SHOWN UP AS BEING NAIVE; I.E., NOT PROTECTING ITS MARKET WHILE US AND OTHERS ARE. THIS IS THE COMMISSION'S ACHILLES HEEL WITH THE MEMBER STATES.

7. THE EC ALSO REVIEWED TALKS WHICH IT IS CONDUCTING WITH SPAIN, SOUTH KOREA, EASTERN EUROPE, AND SOUTH AFRICA. TALKS WITH SOUTH AFRICA INDICATE THAT THE SITUATION IS UNDER CONTROL, DAVIGNON SAID.

8. THE DIFFICULTIES THE EC FACES IN COPING WITH ITS STEEL PROBLEMS ARISE FROM THREE SOURCES: THE POLITICAL COMPLEXITY OF ENTRENCHED POLITICAL/ECONOMIC THINKING WHICH IDENTIFIES SUCH HEAVY INDUSTRY WITH ECONOMIC HEALTH; THE FACT THAT RESTRUCTURING OF THE STEEL MARKET WILL TAKE PLACE LARGELY IN THOSE AREAS WHICH 15 YEARS AGO UNDERWENT A PAINFUL RECONVERSION OF ITS COAL INDUSTRY;

AND THIRDLY, BECAUSE IT IS VERY DIFFICULT TO FIND NEW INDUSTRIES TO SET UP DURING A RECESSION.

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PAGE 01 EC BRU 04033 02 OF 02 221754Z  
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LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 04033

9. ONE FACTOR WHICH ENHANCES THE COMMISSION'S CHANCE OF SUCCEEDING IS THAT ITS POLICY IS DEVELOPING AT THE SAME TIME AS THE MEMBER STATES. IT IS NOT TRYING TO MODIFY EXISTING MEMBER STATES' POLICIES BUT BOTH ARE TRYING TO MOVE IN A PARALLEL FASHION. IT IS SIGNIFICANT DAVIGNON SAID, THAT THE BELGIAN AND FRENCH EFFORTS TO AID THEIR INDUSTRIES HAVE BEEN ONLY IN TERMS OF AMOUNTS AND DO NOT DEAL IN METHODS AND INSTRUMENTS.

10. BUT IT IS IMPORTANT THAT THE EC'S PARTNERS RECOGNIZE HOW VULNERABLE THE COMMISSION IS VIS-A-VIS THE MEMBER STATES ON THE STEEL PROBLEM. THEREFORE HE SAID IT IS NECESSARY FOR THE MAJOR STEEL PRODUCING COUNTRIES TO TALK.

11. IN REGARD TO THE US SUGGESTION OF MEETING IN THE OECD, DAVIGNON SAID THE PROBLEM IS LARGELY A QUESTION OF TIMING. FIRST, THERE SHOULD BE A MARKET STUDY BY THE OECD SECRETARIAT. IF WE WERE TO GO TO THE OECD NOW, EACH COUNTRY WOULD ESSENTIALLY OFFER EXPLANATIONS (AND JUSTIFICATIONS) OF WHAT  
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PAGE 02 EC BRU 04033 02 OF 02 221754Z

IT IS DOING. MOREOVER, THE JAPANESE WOULD BE RELUCTANT PARTICIPANTS. WHILE THE STUDY IS GETTING STARTED, TALKS SHOULD CONTINUE WITH THE US AND JAPAN ABOUT THE POLITICAL PROBLEMS AND SPECIFIC POLICY DIFFERENCES AS WELL AS WHAT TO DO ABOUT STEEL INVESTMENT IN LDCS.

12. HE WORRIED THAT IF AN OECD MECHANISM WERE SET UP BEFORE BILATERAL OR TRILATERAL DISCUSSIONS WITH JAPAN AND THE US COULD PROVIDE A SOUND BASIS FOR SUCH A MECHANISM THERE WOULD BE A RISK THAT SOME WOULD SAY, "WE HAVE SOMETHING --LET'S SEE WHAT IT CAN DO."

13. THE US SIDE SAID THAT THERE WERE DIFFERENCES BETWEEN THE US AND EC VIEWS, BUT THAT BOTH SIDES COULD AGREE ON THE GLOBAL PROBLEM AND THAT IS WHY THE US WAS PUSHING FOR GLOBAL TALKS. US INDUSTRY IS MORE CONCERNED WITH THE CYCLICAL THAN THE SECTORAL NATURE OF THE PROBLEM. THE US ALSO EXPECTS THE COOPERATION OF THE EC IN AVOIDING DUMPING PROBLEMS AND IN DEVISING SOLUTIONS WHICH WOULD NOT PERMIT THE EMERGENCE OF A WORLD STEEL CARTEL. IF THE EC EXPECTS THE COOPERATION OF THE US WHILE THE EC UNDERTAKES ITS READJUSTMENT PROGRAM, THE EC SHOULD CONSULT WITH THE US ON THE DEVELOPMENT OF ITS PLANS TO AID ITS INDUSTRY. US INDUSTRY PERCEIVES OTHER GOVERNMENTS AS RELIEVING THE FINANCIAL BURDEN ON FOREIGN PRODUCERS CAUSED BY DUMPING IN MARKETS ABROAD, WHILE THE US GOVERNMENT DOES NOTHING FOR US INDUSTRY.

14. CONSULTATIONS ARE EQUALLY IMPORTANT TO THE US AND WOULD HELP TO EXPLAIN AND JUSTIFY US ACTIONS TO US INDUSTRY. OTHERWISE IT WOULD FEEL THAT IT WAS BEING ASKED TO SUFFER UNFAIRLY. COOPER POINTED OUT THAT WHILE AT FIRST THE OECD MIGHT BE USED AS A SELF-JUSTIFICATION EXERCISE FOR PARTICIPANTS, IT WOULD SUBSEQUENTLY BE USEFUL IN POLICY FORMATION BECAUSE IT WOULD ELICIT REACTIONS FROM OTHER PRODUCERS. HE ALSO STRESSED THAT WHETHER OR NOT THE JAPANESE PLAY A MAJOR ROLE IN SUCH DISCUSSIONS, IT IS IMPORTANT TO TRY THE OECD LIMITED OFFICIAL USE

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PAGE 03 EC BRU 04033 02 OF 02 221754Z

PATH AND TO SEEK A GLOBAL VIEW DRAWING ON CONTRIBUTIONS FROM ALL PARTICIPANTS. THE US ALSO TOLD THE EC THAT THE JAPANESE HAD AGREED TO GO TO THE OECD AND TO ENTER INTO BILATERALS WITH THE US ALONG THE LINES OF THE JAPANESE/EC BILATERALS. THEREFORE, THE US SAW NO PROBLEMS WITH SIMILAR CONSULTATIONS WITH THE EC. HINTON

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## Message Attributes

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